

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

EXPERIMENTAL RATE AND SERVICE CHANGES
TO IMPLEMENT NEGOTIATED SERVICE AGREEMENT
WITH CAPITAL ONE SERVICES, INC.

Docket No. MC2002-2

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS CRUM TO
INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T3-22-25)

The United States Postal Service hereby provides the responses of witness
Wilson to the following interrogatories of Office of the Consumer Advocate:
OCA/USPS-T3-22-25, filed on November 15, 2002.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

Nan K. McKenzie

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-3089 Fax -5402
November 27, 2002

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS CRUM TO
INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T3-22. Please refer to Attachment A and Attachment B of your testimony. Attachment B, page 1 shows an increased contribution of \$1,846,000, based on additional mail volume of 15,458,969 pieces. Attachment A, page 2 shows a Before Rates Solicitation Mail Volume of 768,000,000 pieces.

- (a) Refer to Attachment A, page 2. Please confirm that after the implementation of the NSA, total First-Class solicitation mail volume will equal 776,432,165 (768,000,000 + 8,432,165). If you do not confirm, please explain.
- (b) Refer to Attachment A, page 2. Please confirm that after the implementation of the NSA, total First-Class customer mail volume will equal 647,026,804 (640,000,000 + 7,026,804). If you do not confirm, please explain.
- (c) Refer to Attachment B, page 2. Please confirm that the after rates Return Cost Savings should be calculated using 1,423,458,969 pieces of mail, rather than 1,408,000,000 pieces of mail. If you do not confirm, please explain.
- (d) Refer to Attachment B, page 2. Please confirm that the calculation of after rates Return Cost Savings does not identify any return cost savings for the additional 15,458,969 pieces. If you do not confirm, please explain in detail.
- (e) Please confirm that the total Return Cost Savings should be \$13,219,161 $[(0.13592277 - 0.12663613) * (1,408,000,000 + 15,458,969)]$. If you do not confirm, please explain in detail.

Response:

- a) Confirmed.
- b) Confirmed.
- c) Not confirmed. Attachment B, page 2 includes only the Address Change Service (ACS) Return Cost Savings. The savings from new volume (with ACS in place) are included in Attachment B, page 1 (increased contribution from new mail volume). Please note that I use the after rates unit cost per piece in my calculation in Attachment B, page 1, thus I have included the return savings on the new volume in that calculation in the appropriate relative proportion between solicitations and customer mail. If I were to include return savings on the new mail volume in Attachment B, page 2 as well, I would be double counting those savings.
- d) Confirmed.
- e) Not confirmed. Please see my response to (c) above.

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OCA/USPS-T3-23. Please refer to Attachment A, page 2, lines (1) and (2), of your testimony.

- (a) In what manner have you (or anyone else at the Postal Service) analyzed the basis for Capital One's Solicitation Return Percentage of 9.6 percent? Please provide copies of all analysis.
- (b) In what manner have you (or anyone else at the Postal Service) analyzed the basis for Capital One's Statement Return Percentage of 1.2 percent? Please provide copies of all analysis.

RESPONSE:

- a) Capital One's solicitation return rate was examined in several ways that became increasingly more analytical. First, very early in the discussions with Capital One, we asked two postal employees familiar with Capital One and domiciled near the return location about its solicitation return percentage. The first one said that 10 percent seemed reasonable. The second one answered "10 percent" when asked to estimate the return percentage. Later Capital One supplied us its data regarding solicitation volume and return volume. We calculated an average return rate of 9.9 percent based on this data. Later still, Capital One supplied us with a flat file from its contractor, which listed returns by month. We then did a simple analysis of the raw data and assumed a one-month lag. At this point, we discussed our analysis with Capital One. It explained, to our satisfaction, that the estimated return rate is 9.6 percent.
- b) Since Capital One's customer mail return percentage was so close to the First-Class Mail average and statement-like mail tends to have more similar characteristics across companies, I did no additional analysis and was comfortable accepting those results as stated.

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OCA/USPS-T3-24. Please refer to your response to APWU/USPS-T3-4(d), where you state “I am assuming that Capital One’s First-Class Mail is forwarded at or below the average rate.”

- (a) In the statement quoted above, are you referring to Capital One’s entire First-Class Mail volume? Please explain.
 - (i) Please explain whether you assume Capital One’s First-Class solicitation mail volume is forwarded at or below the average rate.
 - (ii) Please explain whether you assume Capital One’s First-Class customer account mail volume is forwarded at or below the average rate.
- (b) Please explain the basis for your assumption that Capital One’s First-Class Mail is forwarded at or below the average rate, given that Capital One witness Jean has stated in response to OCA/COS-T1-18(a) and (b), by reference to OCA/COS-T1-9(c), that “Capital One has no way to estimate” the percentage of Capital One’s First-Class solicitation and customer account mail that is forwarded.
- (c) Capital One processes its First-Class solicitation mail addresses through the National Change of Address (NCOA) database approximately 60 days prior to mailing. This results in a solicitation return percentage for Capital One of 9.6 percent, nearly 8 times the average presort letters return percentage of 1.23 percent. However, you assume that Capital One’s First-Class Mail is forwarded at or below the average rate of 1.96 percent. What explains the large percentage difference as compared to the average for pieces returned to Capital One and the “at or below the average rate” assumption for pieces forwarded on behalf of Capital One?
- (d) With respect to your response to APWU/USPS-T3-4(e), what is the analogous average forwarding rate for 1) letter-shaped Standard Mail, and 2) all standard Mail that is endorsed “Address Service Requested” or “Forwarding Service Requested”?

RESPONSE:

- a) Yes, I meant no differentiation between solicitations and customer mail in my response.
- b) As explained in my response to APWU/USPS-T3-4(d), I am basing my comments on witness Wilson’s response to APWU/USPS-T2-8. Please also refer to my responses to OCA/USPS-T3-16(d) and POIR #2, Q7.
- c) Your question appears to be based on a misunderstanding of the relationship between NCOA and forwarded and returned pieces. The National Change of Address database includes information when recipients change their address

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by moving and notify the Postal Service. Thus, Capital One can keep their forwarding "at or below" national averages by running NCOA more frequently. Most returns are not related to the fact that a mail recipient moves. Reasons for returns include attempted not known/unknown, not deliverable, insufficient address, no such number, no such street, no mail receptacle, refused, vacant, unclaimed, moved left no address, and deceased.

d) I do not know.

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OCA/USPS-T3-25. Please refer to the Domestic Mail Classification Schedule (DMCS), section 353, "Forwarding and Return." Please provide the "factor equal to the number of Standard Mail pieces nationwide that are successfully forwarded for every one piece that cannot be forwarded and must be returned."

RESPONSE:

The factor is 2.472. See DMM section F010.5.3(g).

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

Nan K. McKenzie

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